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PACIFIC  TELESIS  
Group - Washington

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AUG 23 1993

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

EX PARTE

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August 23, 1993

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W. - Room 222  
Washington, D.C. 20554

Re: CC Docket No. 92-296, Simplification of the  
Depreciation Prescription Process

Dear Mr. Caton:

On August 23, 1993, I spoke with Kathleen Levitz, Acting Chief of the Common Carrier Bureau, about the referenced proceeding. The specific matters that I raised are contained in the attachment, which Pacific Bell has filed previously with the Commission.

I am filing two copies of this letter and its attachment in accordance with Section 1.1206(a) of the Commission's rules. Please contact me if you have any questions concerning this matter.

Sincerely,



Attachment

CC: Kathleen Levitz

No. of Copies rec'd 041  
List A B C D E

## **PACIFIC BELL PERSPECTIVE**

### **PRICE CAP OPTION**

- best long term solution
- major savings/flexibility to manage timely recovery
- more than adequate safeguards & oversight:  
FCC, State PUCs, SEC, GAAP

### **TRIAL COMPANY FOR OPTION D**

- Pacific Bell volunteers to trial Option D filing
  - California is single largest entity to be represeted in 1994
  - Option D designed for Price Cap companies; why not use it
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# **PACIFIC BELL: *Depreciation Simplification***

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PACIFIC  BELL  
A Pacific Telecels Company

## **CURRENT PROCESS NO LONGER VIABLE**

### **1991 STUDY: COST ABOUT \$ 1 M**

- "achieved" an interstate depreciation expense change of about \$ 5 M

### **1991 STUDY: PACIFIC HAD LARGER STAFF**

- traditional study takes 2 dozen people about 1 year
- then Pacific's staff was 11; today it is 5 with similar reduced SME support

### **RECOVERY PROBLEMS REMAIN**

- 1987 RIC reduced 1987 imbalance, but new imbalance is at least \$500M
  - prescribed lives are coming down, but not at market place speed, and Pacific needs yet another "dying account" amortization
  - Option D can help overcome these problems
  - under Option D, LECs have responsibility for future deficiencies
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## **PRICE CAP OPTION BENEFITS**

### **OPTION D ALLOWS LECs TO SET RATES WITH FCC APPROVAL**

- a long term solution to a long standing problem
- greater flexibility and cost savings
- range Option A or B are interim solutions - limited simplification at best

### **FCC ABSOLUTELY HAS ADEQUATE OVERSIGHT**

- ARMIS reports
- common goal: establish reasonable depreciation rates

### **EVERY INCENTIVE TO MANAGE PRUDENTLY**

- capital recovery process needs long term view
  - important to basic health of the business which interests customers, shareholders, internal and external auditors, officers and others
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# **PACIFIC BELL: *Depreciation Simplification***

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## **RANGE OPTIONS A OR B**

### **NEITHER IS A LONG TERM SOLUTION**

- at best both Options still require significant resources
- suggested improvements:
  - wide ranges
  - based on proposed factors
  - applied to all accounts
- at worst (narrow ranges, limited accounts) Option A or B are no simplification at all
- 33% of Pacific's prescribed factors are better than preliminary Option A ranges set for minor accounts

### **EITHER REQUIRES SUBSTANTIAL ONGOING WORK**

- setting/maintaining appropriate ranges means increasing staff size
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# **PACIFIC BELL: *Depreciation Simplification***

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## **OPTION D: IS BEST ALTERNATIVE**

### **IECs & CABLE TV COMPANIES ARE COMPETITORS**

- commentors' suggestions tend to hamper competition
- IECs & CATVs gain by LEC's under-depreciation

### **STATE PUCs DO NOT ADOPT FCC FACTORS**

- annual filings with Calif. PUC are simpler with little historical data; more support is provided when asked
- CPUC has granted shorter lives on several major accounts
- CPUC has incorporated improved methods

### **COMMENTORS ASSUME WITH OPTION D, LECs WILL: ABANDON THE RATE FORMULA; NOT TRACK RESERVES; PROVIDE NO DATA**

- absurd notions, evoked a spate of needless, negative comments
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## **1994 REPRESRIPTION vs. SIMPLIFICATION**

### **TRIAL FOR PRICE CAP OPTION D**

- commentors' consensus was that simplification is needed
  - Option D was designed for price cap LECs; why not use it?
  - California, as largest 1994 entity, makes Pacific the ideal trial company
  - Pacific has a good record of complete, accurate studies
  - work out any bugs with one, not many LECs
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